

Capitalism in the Twenty-First Century: Global Inequality, Piketty, and the Transnational Capitalist Class

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Introduction

Why has Thomas Piketty's tome, *Capital in the Twenty-First Century*, sparked such a firestorm of debate on global inequalities in the world media, academic and policy circles? These inequalities are indeed truly savage. In 2015, the year after Piketty's book was released in English,¹ the development NGO Oxfam reported that the richest one percent of humanity would own more than the rest of the world in 2016.² This is up from the one percent owning 44 percent of the world's wealth in 2010 and 48 percent in 2014. If current trends continue, the one percent would own 54 percent by 2020. Even more shocking, the top 80 billionaires were worth \$1.9 trillion in 2014, an amount equality to the bottom 50 percent of humanity and these 80 saw a 50 percent rise in their wealth in just four years. At the same time, the poorest 50 percent saw a drop in their wealth during this same four-year period from 2010 to 2014. In other words, there has been a huge transfer of wealth in a very short period of time from the poorest half of humanity to the richest 80 individuals on the planet.

I do not think however, that outrage over these inequalities explains the attention that Piketty's study has received. After all, Piketty is far from the first to draw attention to such expanding inequalities in recent years and he does not even show just how pronounced they are in the same way that Oxfam and other studies have done so. His exposition exhibits theoretical and analytical limitations, political blind spots and historical flaws, as I will discuss below. His proposed remedies—a global tax on capital and redistribution through progressive tax reform—are welcome yet hardly novel.

1 Thomas Piketty, *Capitalism in the Twenty-First Century* (Cambridge: Harvard University Press, 2014 [2013]).

2 Oxfam. *Wealth: Having It All and Wanting More* (London: Oxfam, 2015), <https://www.oxfam.org/en/research/wealth-having-it-all-and-wanting-more>. Accessed on November 3, 2015

But that is precisely the rub. *Capital in the Twenty-First Century* has been so well received by the academic, media, and political establishment precisely because it converges with the reformist agenda of a rising number of transnational elites and intelligentsia. These elites have become increasingly concerned that the social conflicts and political turmoil sparked by such egregious inequalities may destabilize global capitalism and threaten their control. They seek to save capitalism from itself and from more radical projects from below. Like Piketty, they call for mildly redistributive measures such as increased taxes on corporations and the rich, a more progressive income tax, the reintroduction of social welfare programs, and a “green capitalism.” They are also alarmed that extreme levels of inequality will undermine the prospects for growth and profit making. The Organization of Economic Cooperation and Development (OECD), the club of the 34 richest countries, for instance, warned in a 2015 report that the “global inequality gap” has “reached a turning point.” The report did not have much to say about the social injustice that such inequality represents, nor about the mass suffering it brings about. It did, however, highlight that “high inequality drags down growth” and recommend raising taxes on the rich.³

What accounts for escalating worldwide inequalities that have so alarmed transnational elites? As Marx analyzed in *Capital*, there is something going on in the capitalist system itself beyond sets of government policies that generates inequalities. Simply put, capitalists own the means of producing wealth and therefore appropriate as profits as much wealth as possible that society collectively produces. Capitalism produces social inequalities as a consequence of its own internal workings. But such inequalities end up undermining the stability of the system since the mass of working people cannot purchase the wealth that pours out of the capitalist economy to the extent that capitalists and the well-off retain more and more of total income relative to that which goes to labor. If capitalists cannot actually sell (or “unload”) the products of their plantations, factories, and offices then they cannot make profit. This is what in critical political economy constitutes the underlying internal contradiction of capitalism, or the *overaccumulation* problem. Left unchecked, expanding social polarization results in crisis—in recessions and depressions, such as the

3 Organization for Economic Cooperation and Development, *In It Together: Why Less Inequality Benefits All* (OECD Publishing, 2015), http://www.keepeek.com/Digital-Asset-Management/oecd/employment/in-it-together-why-less-inequality-benefits-all_9789264235120-en#page1. Accessed on November 3, 2015.

Notably, the report also called for greater gender inequality, not as a matter of justice but because gender equality is shown to decrease income inequality.

1930s Great Depression or the 2008 Great Recession. Worse still, it engenders great social upheavals, political conflicts, wars and even revolutions—precisely the kinds of conflicts and chaos we are witnessing in the world today. As Chris Harman showed so clearly in his eminently readable account, *A People's History of the World*, the struggle between the haves and the have-nots has driven civilization and its interminable crises for millennia.⁴

In the view of the reformers as well as that of Piketty, however, it is not the capitalist system itself but its particular institutional organization that is to blame for inequalities. They believe it can be offset by policies such as those Piketty proposes. Radical political economists refer to state redistributive policies or worker struggles for higher wages that offset the tendency towards social polarization, wars that may destroy existing capital stock and have a leveling effect, and so on, as countervailing tendencies. However, seen in light of the *systemic* contradictions of capitalism, inequality is not the result of “bad policies.” Prevailing policies and institutions are not a “public choice” as insinuated by the *choice theoretic paradigm*⁵ employed by Piketty, among others. This approach views state policies and their outcomes as the product of “choices” made by publics, as if publics and states are rational, unitary and coherent actors. Rather, policies are the outcome of ongoing and often unpredictable crises and social struggles among competing classes and groups.

The Class Warfare of the Transnational Capitalist Class

Capitalist globalization from the 1970s and on undermined the countervailing tendencies that in the mid-20th century attenuated some of the sharpest social polarization. The high rates of inequality registered in the wake of the industrial revolution reached a peak in the late 19th and early 20th centuries and then diminished somewhat—in the *heartlands of world capitalism*—in the wake of two world wars and the Great Depression. Colonialism and imperialism transferred surplus wealth from the periphery to the metropolitan centers of world capitalism and made possible the rise of a labor aristocracy in these centers, as both Vladimir Lenin and Cecil Rhodes noted early in the 20th century. Those sectors are now experiencing under capitalist globalization downward mobility, heightened insecurity and “precariatization” that threaten to undo the hegemonic blocs forged in the 20th century in the core countries through

4 Chris Harman, *A People's History of the World* (London: Bookmarks, 1999).

5 Alex Callinicos, *Social Theory: A Historical Introduction* (New York: New York University Press, 1999).

the incorporation of these (often white racially privileged) sectors. When reform-oriented transnational elites bemoan the “loss of the middle class” they are referring to the destabilization of these formerly privileged sectors among the working class and to the erosion of the earlier hegemonic blocs.

The “Fordist-Keynesian” social order that took shape in the 30 years following World War II involved high growth rates, a rise in living standards for substantial sectors of the working class, and a decrease in inequalities in the developed core of world capitalism. Why “Fordist-Keynesian?” It was Henry Ford who first recognized that the new system of mass, standardized production (“Fordism”) could not be sustained without introducing as well mass, standardized consumption. This meant establishing a stable employment arrangement—or capital-labor relation—for a significant portion of the working classes and wages high enough for the working class to actually consume the goods and services that their labor produced—in exchange for workers’ obedience to capital. In turn, John Keynes analyzed that the Great Depression owed to insufficient demand as a result of the concentration of wealth. The state needed in Keynes’ view to intervene in the economy in order to regulate the market (especially financial markets) and to boost demand through state spending on public projects such as infrastructure and social services as well as through the establishment of minimum wages, unemployment insurance, pensions, and so forth.⁶

The period of post-World War II prosperity in the core countries owed a great deal to this combination of Fordist production and regulated capital-labor relations and Keynesian monetary, budgetary and regulatory policies. Mainstream academics and policymakers shifted from the earlier classical economic theories of David Ricardo, Adam Smith, and Jean Baptiste Say to Keynesian economic theory. State intervention in the capitalist market and a component of redistribution came to define economic policy in the mid-20th century in the then-First World, as well as in the then-Third World in the wake of decolonization. Causal to this evolution of capitalism was the struggles between competing social and class forces around the world. The Fordist-Keynesian arrangement came about because of the mass struggles of working and

6 There is a great deal of good literature on Fordism and Keynesianism. Harvey, although somewhat outdated, remains for me an important statement on the subject. David Harvey, *The Condition of Postmodernity*, (Cambridge, MA: Blackwell, 1990). See also: Ash Amin, *Post-Fordism: A Reader*, (Cambridge: Blackwell, 1994); Robert W. Cox, *Production, Power, and World Order: Social Forces in the Making of History* (New York: Columbia University Press 1987); William I. Robinson, *Global Capitalism and the Crisis of Humanity*, (New York: Cambridge University Press, 2014).

popular classes from the late 1800s into the 1930s, including worker, populist, and socialist movements, the Bolshevik revolution, and the anti-colonial and national liberations struggles in the Third World. While these struggles cannot be discussed here, the epistemological point important to the critique of Piketty and our understanding of global inequalities in the twenty-first century is that social forces in struggle are what shape the nature and direction of social change. Class and social struggle is almost entirely absent from Piketty's account of capital and inequality in the twenty-first century. I will have more to say on this below.

Redistributive nation-state capitalism evolved, therefore, from capital's accommodation to mass upheavals from below in the wake of the to the crisis of the two world wars and the Great Depression. In the wake of the next great crisis, that of the 1970s, capital went global as a strategy of an emergent transnational capitalist class, or TCC, to reconstitute its social power by breaking free of nation-state constraints to accumulation. The post-WWII "class compromise" served capital well for several decades. Corporate profits rose sharply from 1945 to 1968, and then declined until the early 1980s, when it again rose very rapidly, this time as a result of globalization.⁷

Let us elaborate: the particular Fordist-Keynesian institutional arrangement came apart in the wake of the 1970s crisis of world capitalism. The corporate class and its agents identified the mass struggles and demands of popular and working classes and state regulation as fetters to its freedom to make profit and accumulate wealth as the rate of profit declined in the 1970s. Emergent transnational capital went global. As the TCC congealed it forged what became known as the "Washington consensus," or agreement around sweeping worldwide economic restructuring to put in place a new transnational corporate order and go on the offensive in its class warfare against working and popular classes.

Transnationally oriented elites and capitalists captured governments around the world and used states to undertake sweeping restructuring and integration into a new globalized production and financial system. The "neoliberal counterrevolution" opened up vast new opportunities for accumulation. Free trade agreements and financial liberalization lifted state restrictions on cross-border trade and capital flows. Privatization turned over everything from public industries, to educational and health systems, mail service, highways and ports to transnational corporations and provided an investment

⁷ Piketty demonstrates as much; see figure 6.8, pp. 227. In Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge: Belknap Press, 2014)

bonanza to the TCC as it concentrated wealth as never before. Labor market reform led to the erosion of regulated labor markets. As workers become “flexible” they joined the ranks of a new global “precariat” of proletarians who labor under part-time, temporary, informalized, non-unionized, contract, and other forms of precarious work.

All of this, it should be clear, has enhanced the structural power of transnational capital over states and popular classes worldwide and has had the effect of exacerbating inequalities. Popular and working classes have been less effective in defending wages in the face of capital’s newfound global mobility. And states have seen the erosion of their ability to capture and redistribute surpluses given the privatization of public assets, ever more regressive tax systems and prospects for corporate tax evasion, mounting debt to transnational finance capital, inter-state competition to attract transnational capital, and the ability of the TCC to transfer money instantaneously around the world through new digital financial circuits (this is the notorious “loss of state sovereignty” about which so much has been written).

Emergent transnational capital experienced a major expansion in the 1980s and 1990s through globalization. The TCC undertook *hyper-accumulation* by applying new technologies such as computer and informatics, through neo-liberal policies, and through new modalities of mobilizing and exploiting a global labor force. The TCC conquered new markets in hothouse fashion in the former Soviet Union, Eastern Europe, and the Third World. Several hundred million new middle class consumers in China, India and elsewhere in the so-called “emerging countries” provided new global market segments that fueled growth. But at the same time hundreds of millions, perhaps billions of people, were displaced from the countryside in the Global South through new rounds of primitive accumulation brought about by neo-liberal policies as well as social cleansing, and organized violence such as the “war on drugs” and the “war on terror,” both of which have served as instruments of primitive accumulation and for the violent restructuring and integration of countries and regions into the new global economy.⁸ Banks and institutional investors began vast new land grabs around the world in the second decade of the 21st century in what amounts to a new round of global enclosures. All this has generated a vast army of internal and transnational immigrants who have swelled the ranks of the unemployed and the structurally marginalized—the new “surplus humanity” –placing downward pressure on wages everywhere.⁹

8 On this point, see Dawn Paley, *Drug War Capitalism* (Oakland: AK Press, 2014).

9 See William Robinson, *Global Capitalism and the Crisis of Humanity*, (Cambridge: Cambridge University Press, 2014).

The Cycle of Crisis and the Reformers

By the late 1990s stagnation once again set in and the system faced renewed crisis as privatizations dried up, the conquered regions were brought into the system, global markets became saturated, and new technologies reached the limits of fixed capital expansion. Escalating global social polarization and inequality fueled the chronic problem of over-accumulation. The global market has not been able to absorb the output of the global economy. Global inequalities and the impoverishment of broad majorities mean that transnational capital cannot find productive outlets for unloading surplus. By the turn of the century it was clear we were headed towards a new structural crisis. First came then Asian financial meltdown of 1997–98, which quickly spread, to Russia, Turkey and Brazil. Then came to dot-com bus and worldwide recession in 2000–01. In 2008–9 the financial system collapsed as stock market, mortgage market, and other bubbles burst.

The TCC turned to several mechanisms to sustain accumulation in the face of stagnation. One is militarized accumulation. Wars and conflicts unleashed cycles of destruction and reconstruction that fuel accumulation. We are now living in a global war economy. The global arms trade, prison-industrial complexes, homeland security systems, mass surveillance, militarized policing and border control, the deployment of armies of private security guards—all this keeps accumulation going in the face of stagnation yet it also further aggravates social inequalities and ultimately destabilizes the system. A second is the sacking and pillaging of public finances, reflecting a more general transformation of public finance. Predatory transnational finance capital extracts ever-greater amounts of surplus value from labor via public finances recycled as bailouts, subsidies and the issuance of bonds. According to the International Bank of Settlements, the global trade in government bonds now exceeds \$100 trillion. Public finance has become a mechanism for capital to make claim to the future income of workers. A third mechanism is frenetic financial speculation in the global financial casino. Fictitious capital now so exceeds the real output of goods and services that a new collapse of devastating proportions would appear all but assured. Although the helped keep the global economy sputtering forward, all three of these mechanisms have further aggravated inequalities, over-accumulation, social conflicts and political crises.

Tellingly, some of the very economists and policymakers who designed the neo-liberal program and pushed it on the world through such transnational state institutions as the World Bank, the International Monetary Fund and the U.S. and other powerful states are now leading critics of “market fundamentalism,” a phrase first coined by George Soros. An Hungarian born billionaire

financier and speculator, Soros achieved notoriety in 1992 when he threw the British economy into a tailspin by unloading some \$10 billion worth of pounds onto international currency markets, making him a profit of \$1 billion overnight. Previously, Soros established himself as a crusader for the overthrow of the former Soviet Union and the imposition of neo-liberal structural adjustment on Eastern Europe. The Wall Street tycoon first coined the phrase “market fundamentalism” in his best-selling 1998 book, *The Crisis of Global Capitalism*, which argued that blind faith in market forces was leading to widening inequalities and ongoing crises that threatened the stability of the system.

Joseph Stiglitz, who as Senior Vice President and Chief Economist of the World Bank from 1997 and 2000, helped imposed neo-liberalism around the world, also became a leading voice among the reformers in the wake of the 1997–98 Asian financial crisis. More recently, Lawrence Summers joined the ranks of the reformists. Previously he displayed impeccable neo-liberal logic in 1991 by claiming, as Chief Economist at the World Bank, that dumping toxic waste in Third World countries would bring economic benefits. “I have always thought that the under-populated countries in Africa are vastly UNDER-polluted,” said Summers, “their air quality is probably vastly inefficiently low compared to Los Angeles or Mexico City.” From the World Bank, Summers went on to design free trade and other neo-liberal policies for the Clinton and then later the Obama administration.¹⁰ Fast forward to 2012; Summers argued that

10 The memo (Internal World Bank Memo dated 12 December 1991) was widely published in the press at the time and is reproduced in hundreds of web sites, among them Wikipedia at https://en.wikipedia.org/wiki/Summers_memo. Particularly useful is Foster’s 1993 discussion of the memo. Following his work as Treasury Secretary in the second Clinton government Summers went on to become President of Harvard University, a post from which he resigned in disgrace for declaring that women are biologically less capable of learning math than men. It is worth recalling more of his infamous 1991 memo:
The measurements of the costs of health impairing pollution depends on the foregone earnings from increased morbidity and mortality. From this point of view a given amount of health impairing pollution should be done in the country with the lowest cost, which will be the country with the lowest wages. I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that....The demand for a clean environment for aesthetic and health reasons is likely to have very high income elasticity. The concern over an agent that causes a one in a million change in the odds of prostrate cancer is obviously going to be much higher in a country where people survive to get prostrate cancer than in a country where under 5 mortality is 200 per thousand. Also, much of the concern over industrial atmosphere discharge is about visibility impairing particulates. These discharges may have very little direct health

escalating inequality should be tempered because it is fueling a growing disillusionment with capitalism.¹¹

Jeffrey Sachs is perhaps most emblematic of the neo-liberal-cum-reformer. As a consultant for international financial institutions and governments Sachs designed and imposed the very first neo-liberal structural adjustment program, on Bolivia, in 1985. The program decimated Bolivia's poor: purchasing power dropped by 70 percent nearly overnight, unemployment shot up to 25 percent as thousands were fired and strikes made illegal, and throwing millions into untold hardship as nearly all social welfare benefits were swept away.¹² The succession of mass popular uprisings against Sachs' program eventually culminated in the indigenous revolution that brought Evo Morales to power in 2006. From Bolivia, Sachs went on to pioneer the "shock program" of structural adjustment in Russia following the collapse of the Soviet Union, resulting in an overnight drop of 50 percent in the GDP, a tenfold increase in poverty and a spike of 75 percent in the mortality rate for workers). He as well drafted programs for the transition to capitalism in Poland and elsewhere in Eastern Europe, including overnight austerity and the wholesale transfer to private banks and corporations of large blocs of formerly state assets.

As global capitalism entered a period of stagnation that also saw renewed mass social struggle and a turn to political radicalism in the face of escalating inequalities at the turn of the twenty-first century these and other one-time apostles of neo-liberalism have framed the public agenda on global poverty and inequality. Their books have become bestsellers and standard texts in university courses.¹³ They have helped to establish the hegemony of a mildly reformist discourse within this agenda that actually embraces the continuation of a campaign to open up the world to transnational capital within a new

impact. Clearly trade in goods that embody aesthetic pollution concerns could be welfare enhancing. While production is mobile the consumption of pretty air is a non-tradable.

The problem with the arguments against all of these proposals for more pollution in LDCs (intrinsic rights to certain goods, moral reasons, social concerns, lack of adequate markets, etc.) could be turned around and used more or less effectively against every Bank proposal for liberalization.

11 Lawrence Summers, "Why Isn't Capitalism Working?" *Reuters*, January 9, 2012, at <http://blogs.reuters.com/lawrencesummers/2012/01/09/why-isnt-capitalism-working/> Accessed on November 8, 2015

12 See, for example, Kenneth Lehman, *Bolivia and the United States: A Limited Partnership*, (Athens: University of Georgia Press, 1999).

13 See Joseph Stiglitz, *Globalization and Its Discontents*, (New York: W.W. Norton, 2003); Jeffrey D. Sachs, *The End of Poverty*, (London: Penguin, 2005).

framework of transnational regulation and mild redistribution through taxation and limited social safety nets.

As case in point, Sachs serves as chief strategist for the United Nation's Millennium Development Goals (MDG). The UN's Millennium Development Goals were promulgated with much fanfare in 2000 at the United Nations Millennium Summit and with the participation of so-called civil society representatives. The Millennium Development Goals put forth a set of eight development goals to be achieved by 2015, among them: a reduction by half the proportion of people living in extreme poverty and who suffer from hunger; universal primary education; a reduction by two-thirds the mortality rate among children under five and by three quarters the maternal mortality rate, halt and reverse the incidence of major diseases, promote gender equality and the empowerment of women, and so on. However, the prescription put forth to achieve these lofty goals was based on a more thoroughgoing privatization of health and educational systems, further freeing up of the market from state regulations, greater trade liberalization and more structural adjustment, and the conversion of agricultural lands into private commercial property—in other words, an intensification of the very capitalist development that has generated the social conditions to be eradicated (see, e.g., Amin, 2006).¹⁴

The ranks of the reformists among the transnational elite and intelligentsia have expanding rapidly since the 2008 global financial collapse. Many of these responded to the collapse and even prior to it by pushing for a neo-Keynesianism. These elites articulated a project involving a shift from neo-classical to institutional economics, a limited re-regulation of global market forces, tax reform (such as the Tobin Tax), limited redistribution, and multi-trillion dollar state intervention programs to bail out transnational capital. The role of the state is to assist transnational capital to accumulate even against its will, by raising demand and attenuating radical challenges without disputing the prerogative of capital or altering the fundamental structure of private property. What is called the “new institutionalism” is a research agenda spanning the social sciences whose principal theoretical claim is that institutions have an independent and formative influence on politics, economics, and social structure. As well, prior institutional development establishes paths that shape and circumscribe present and future political, economic, and social

14 Samir Amin, “The Millennium Development Goals: A Critique from the South,” *Monthly Review*, vol. 57 (10) 2006, published online at <http://monthlyreview.org/2006/03/01/the-millennium-development-goals-a-critique-from-the-south>.

processes (“path dependence”).¹⁵ Reformists among global elites such as Joseph Stiglitz, Jeffrey Sachs, Kofi Annan, and George Soros, among others—all previously adherents to the neo-liberal “Washington consensus”—espouse institutional over neo-classical economics as the intellectual scaffolding of a post-neo-liberal global capitalist order.¹⁶ If neo-classical economics provided the theoretical and ideological foundation for the neo-liberal program then institutionalism along with neo-Keynesianism is likely to provide such a foundation for reformist projects from above.

There is a contradiction between a globalizing economy within a nation-state based system of political authority. Transnational state apparatuses are incipient and unable to impose enough authority to reign in on the power of transnationally mobile capital, especially finance capital that moves seamlessly through the digital circuits of the global economy. Many among the transnational elite have been clamoring for a more effective TNS apparatus that could impose some international regulation and reign in on the anarchy of the global market, especially the global financial systems. This contradiction has Piketty and other reformers troubled. Indeed, Piketty’s call for a “global tax on capital” hinges on the ability of transnational state institutions, starting with the European Union, to impose international financial transparency.¹⁷

Piketty Beyond the Hype

This newfound critique of the model of free market global capitalism among one-time technocrats and intellectuals of neo-liberalism finds resonance and perhaps analytical legitimation in Piketty’s study. Intellectual labor is always organic; it is always for or against one or another historical project

15 Perhaps the most well known academic associated with the New Institutional Economics is Douglass C. North, *Institutions, Institutional Change and Economic Performance*, (Cambridge: Cambridge University Press, 1990). See also John Harris, Karen Hunter, and Colin M. Lewis (eds), *The New Institutional Economics and Third World Development*, (New York: Routledge, 1997).

16 See, Joseph E. Stiglitz, *Globalization and its Discontents* (New York: W.W. Norton, 2003). To his right is Jeffrey D. Sacks, *The End of Poverty: Economic Possibilities for Our Time* (New York: Penguin Books, 2006).

17 Piketty states: “The difficulty is that this solution, the progressive tax on capital, requires a high level of international cooperation and regional political integration. It is not within reach of the nation-states in which earlier social compromises were hammered out.” pp. 573

and subjective standpoint *vis-a-vis* antagonistic social forces and interests. Theory is never neutral. It does not appear in a vacuum and can be positively correlated with distinct social projects in competition and conflict. Piketty's "theory" (actually his work is pre-theoretical) can be positively correlated to the agenda of reformist elements among the transnational elite and their growing concern, even alarm, over the political dangers to global capitalism of rapidly expanding world inequalities. Piketty is responsive to elite concerns yet his study is accommodating to capital, not a radical critique. Claims by such admirers of Piketty to the contrary,¹⁸ his study is *decidedly not* a "dialogue with Marx"; in fact, Marx is largely written off, and Piketty admitted in an interview with the *New Republic* that he has not read Marx' *Capital*.¹⁹ If Milton Friedman was the poster child of neo-liberalism Piketty may become a poster child of the emerging post-neo-liberal era in which states are to play a limited role in a mild reregulation of capital and effect a limited redistribution through transfer payments, more progressive income tax, and a tax on capital.

Some of the critique of *Capital in the Twenty-First Century* is well known. His study is based on just a handful of countries: some 20 are brought in, only five of which figure in any prominence (France, Germany, the United States, Japan and the United Kingdom), and only two constitute detailed case studies, France and the U.K. Capital in Piketty's definition is neither a social relation nor a process of accumulation; it is defined as anything at all that can theoretically have a commercial value—the instruments and the means of production as well as goods themselves. There is a conflation of capital with personal property and with anything that has any use to human beings. Capital by this definition is not specific to capitalism as a system. It includes factories and machinery, money itself, buildings, (including all individual dwellings), roads, jewelry, the clothes we wear, and also everything found in nature (Piketty defines nature itself as "natural capital"), even a cave where stone-age people may dwell and the spears they may use.²⁰

18 See Timothy Shenk, "Thomas Piketty and the Millennial Marxists on the Scourge of Inequality," *The Nation*, April 14, 2014. <http://www.thenation.com/article/thomas-piketty-and-millennial-marxists-scourge-inequality/> Accessed on November 16, 2016.

19 In fact, in the interview he suggested that the only work by Marx he has read is *The Communist Manifesto*. See Isaac Chotiner, *New Republic*, May 5, 2014, at <https://newrepublic.com/article/117655/thomas-piketty-interview-economist-discusses-his-distaste-marx> Accessed on November 6, 2015.

20 "Capital is defined as the sum total of nonhuman assets that can be owned and exchanged on some market" (Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge:

This conception is significant because it means that every human being in global capitalism owns capital so long as s/he wears an article of clothing, has a bicycle, a cow, a cup to drink out of, a wristwatch, or a can of beans. Taking the logic of this definition to the extreme, a shopping cart that a homeless person pushes around is to be considered capital. “Inequality of capital ownership” for Piketty is a matter of unequal distribution within a continuum of ownership. Piketty rests his analysis on the notion that capital generates income (so that those with more capital have more income, hence the roots of inequality in his construct). Never mind that this is never squared with his definition of capital as anything that theoretically can be given a value, so that this blatant contradiction is never resolved; a can of beans or the shirt on one’s back, of course, does not generate income.

Piketty’ study exhibits the same fatal flaw that Marx identified for the two fathers of classical political economy, Adam Smith and David Ricardo. These two made major contributions to our understanding of political economy but could not identify the genesis or the nature of capitalism as a social system (or capital as a social relationship) because they *took for given* the existence of capital itself and the prevailing property relations or distribution of capital. Primitive accumulation in Europe through the enclosures and around the world through colonialism and imperialism dispossessed millions—billions—of people, turning their land and resources into capital (property) of the capitalist class and turning them into proletarians. A class of owners and a mass of dispossessed is the pre-given and non-problematic starting point for Piketty as it was for Smith and Ricardo. Capital and private property are thus *naturalized*.

As a result, force and violence as a fundamental and constitutive social relation in the making of world capitalism are not part of the story; *power* is glaring absent from the entire Piketty construct. *Exploitation* is as well. “In all societies, there are two main way to accumulating wealth,” affirms Piketty, “through work or inheritance” (pp. 379). In fact, I read all 577 pages of text and found that he used the word *exploitation exactly twice*, once in reference to the exploitation of natural resources and the other citing Marx in order to reject the significance of the concept. Inequality for Piketty is not a social relationship of power, domination, or exploitation; it is not antagonism among social groups or classes. These concepts are not part of his vocabulary. It is simply the

Belknap Press, 2014. pp. 46). Later Piketty states: “Historically, the earliest forms of capital accumulation involved both tools and improvements to land (fencing, irrigation, drainage, etc.) and rudimentary dwellings (caves, tents, huts, etc.)” Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge: Belknap Press, 2014), p. 213.

unequal distribution of resources stacked up as income brackets. He dismisses in a single sentence (pp. 252, under the heading “Class Struggle or Centile Struggle?”) the concept of class in analyzing inequality in favor of deciles and centiles of income earners and capital ownership.

Since the existence of capital and the prevailing property relations are given as the starting point of analysis, Piketty does not—and *cannot*—explain why in the first instance there would be inequality in the capitalist system. Inequality flows from the unequal ownership of capital, yet this unequal ownership of capital is not, and cannot be explained by Piketty. His narrative begins with an already established regime of property. The best he can achieve is to analyze a series of *proximate* causes for rising inequality, such as the rise of “supermanagers” with mega-salaries (but why?), the decline in the minimum wage (but why?), and so on. Social and class struggle and the configurations of forces these struggles bring about are not a significant part of his narrative. The two world wars and the 1930s depression, for instance, are the result not of the *internal* workings of the system but of *external* and unexplained “shocks.”

The crux of Piketty’s argument is what he refers to as the capital-rate of growth ration. When r , as the rate of return on capital, is greater than g , the growth rate, then inequality will rise, expressed as $r > g$.²¹ This is, on the one hand, in essence a neo-liberal argument: inequality is not the result of exploitation but of slow growth (“Decreased growth—especially demographic growth—is thus responsible for capital’s comeback” [pp. 156]). Piketty places causal centrality on slow growth: it is not inequality that leads to slow growth but slow growth that leads of inequality. The notion that high inequality means that output cannot be absorbed (insufficient purchasing power) and thus growth (accumulation) stagnates—that is, in simplified terms, *overaccumulation*—cannot figure into the model. On the other hand, there is a certain

21 “The central thesis of this book is precisely that an apparently small gap between the return on capital and the rate of growth can in the long run have powerful and destabilizing effects on the structure and dynamics of social inequality. In a sense, everything follows from the laws of cumulative growth and cumulative returns” Thomas Piketty. *Capital in the 21st Century*. (Cambridge: Harvard University Press, 2014). Pp. 77. I cannot here, to reiterate, undertake a complete review of Piketty. However, it is worth noting that he adds to his central thesis the notion that greater population growth will have the effect of diminishing inequality whereas less population growth with increase inequality, yet he never presents any convincing evidence for this proposition. His logic is absolutely contorted: greater population growth decreases the importance of inherited wealth. He claims that with greater population wealth there is greater distributed earnings and savings.

tautology here; there is inequality because returns on capital are high. Returns on capital are high because there is an unequal distribution of capital. In any event, the world is rife with examples of a sharp and sustained rise in inequality simultaneous to very high growth rates. Brazil and Mexico experiences some of the highest growth rates in the world in the 1960s and were routinely referred to in that decade as “miracle economies.” Yet inequalities skyrocketed at that time in those countries, as Braun has shown, as it has in China in the 21st century period of phenomenally high growth rates.²²

Next, Piketty’s theory of inequality hinges on the capital-income ratio that he postulates, capital being the total market value of all assets (as previously mentioned, this includes by Piketty’s definition someone’s can of beans, car or personal dwelling; in this conception the capital stock need not be productive), and income being the quantity of goods produced and distributed in a nation in one year. If the capital stock grows quicker than output then inequality will rise. Inversely, high growth rates will lower inequality (*assuming* that greater output will raise income).

Yet this capital-income ratio on which Piketty’s thesis hinges tells us very little; it is actually misleading. He contends that slow growth starting in the late 20th century (including slow demographic growth, which is only mathematically relevant for the model but not demonstrated to have any relevance for the real world in explaining inequality) as well as high savings is the prescription for increasing the capital stock relative to income and therefore for an increase in inequality. This is indeed the very crux of Piketty’s thesis. But it explains remarkably little. Indeed, it is by Piketty’s fiat a mathematical law but not a social law, meaning that if one postulates that inequality is the result of more going to the capital side than the income side of the ratio then by definition inequality will increase.

But neither slow growth nor high savings (nor for that matter the rate of demographic growth) can cause anything; they are not independent but dependent variables. They need to be explained in turn, not as exogenous to the model but as endogenous and caused by something else going on. What is this something else? Here Piketty does not provide any causal explanation, apart from simply suggesting that historically the social system (he takes us back to Antiquity) tends to grow slowly so that high growth in societies are the exception and not the norm; again, he provides observation but not explanation. What then may be the independent variable in this model, that is, what may

²² Dennis Braun, *The Rich Get Richer: The Rise of Income Inequality in the U.S. and the World*, (Belmont: Wadsworth, 1997).

cause slow growth and high savings? If we move beyond the conceptual constraints of Piketty's model—and of neo-classical economics—we find that all Piketty is saying is that as investment opportunities dry up (*over-accumulation*) growth will slow and the over-accumulated capital is expressed as growing piles of capitalists' wealth.

Once we step out of the neo-classical box we can see the circular reasoning in this thesis. Circular reasoning is when one explanation for a condition or phenomenon is itself said to be caused by that condition or phenomenon. Heightened inequalities from 1970 to 2010 are said to be caused by slow growth and continued high savings. Slow growth and continued high savings are caused by the increase in capital stock relative to income in the capital-income ratio. Yet this increase in capital stock relative to income is caused by slow growth and high savings. Stepping outside this box, "continued high savings" in the capitalist economy, suggests that capitalists are accumulating capital that they cannot reinvest and thus expand the income side of the equation. The ever-greater concentration of wealth leads to slow growth and "high savings" or to stagnation in the face of over-accumulated capital. Slow growth is the effect of inequality in this framework, not the cause.

Another serious problem in Piketty's narrative is the lack of distinction between real and fictitious capital. Fictitious capital is money thrown into circulation without any base in commodities or in production. He calculates as increases in capital the tremendous inflation of asset values (e.g., housing and stock markets) even though this rise in value does not necessarily (and in recent decades *has not*²³) represent the expansion of real material production and services, e.g., more housing or industrial and service output. To be sure, these inflations *do* represent an increase in the social power of capital but they cannot explain the rise in inequality consistent with Piketty's hypothetical formulation. This leads him to claim that the increase in asset prices from 1950 to 2010 "is now complete" and that asset prices will now rise at "the exact same pace as consumer prices." (Pp. 188).

I am reminded here of the following joke: A chemist, a physicist, and an economist are stranded on a desert island and have a can of beans they need to open. The chemist suggests they combine seawater and other mineral deposits on the island to generate a chemical response that will dissolve the tin. The physicist suggests they climb on to a palm tree and drop the can at a precise angle on to a sharp rock to open it. Then the economist declares: "I know, let us assume we have a can opener."

23 See inter-alia, William Robinson, *Global Capitalism and the Crisis of Humanity*, (Cambridge: Cambridge University Press, 2014).

Piketty calls for transfers programs (health, education, and pensions), progressive income tax, and a “global tax on capital” in order to resolve the problem of escalating inequalities. This call for a “global tax on capital” has sparked considerable interest among commentators. However, it is important to be clear on what he means by this. One would think typically of a “tax on capital” as corporate tax. But this is *not* a call for a tax on corporate profits. Recall Piketty’s definition of capital as any asset that has a value. Although he mentions taxing foundations and financial institutions, by a “global tax on capital” he is referring to taxing individuals in accordance with the value of their assets and in the order of a few percentage points. “An 0.1 percent tax on capital would be more in the nature of a compulsory reporting law than a true tax,” concedes Piketty. “Everyone would be required to report ownership of capital assets to the world’s financial authorities in order to be recognized as the legal owner, with all the advances and disadvantages thereof” (pp. 519). This “global tax on capital” would amount to extending to all people’s assets what in many countries is currently a property tax.

Piketty’s proposed remedies for rising inequality do not involve control over capital but rather the capture of small amounts of its accumulated surplus. However important this may be, his reform agenda is considerably milder, in fact, than controls over capital that states imposed during the Fordist-Keynesian era or what many around the world are now demanding. He does not call for restraining “free trade,” that is, the free movement of transnational capital across borders as epitomized in most recently in the Transnational Pacific-Partnership, or TPP, agreement. Such measures as nationalizing banks or rebuilding public sectors are simply not on his agenda.

Finally, Piketty does not really address truly *global* inequalities. There are two omissions of great significance in terms of his conception of global inequalities as well as the political significance of these inequalities. One is the lack of any historical or analytical treatment of the great North-South or center-periphery divide brought about by colonialism and imperialism. Modernization theory is recycled; the underdeveloped countries are seen by Piketty to be in a process of catching up. The second is the omission of inequality seen in terms of the global population as a whole, beyond the top centile and the billionaire class, such as that discussed by the Oxfam reported cited at the start of the present essay. According to that report, 52 percent of global wealth not owned by the richest one percent of humanity is owned by the richest 20 percent, while 80 percent of humanity has to make do with just 5.5 percent of global wealth. This is the new global social apartheid. A necessary step in overthrowing global apartheid is a critique of its elite critics.

